

## Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 OMB-01 TRSE-00 ABF-01 SAJ-01 AID-05

/081 W

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R 061435Z MAY 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 2692

INFO AMEMBASSY LONDON

AMEMBASSY NEW DELHI

C O N F I D E N T I A L COLOMBO 1436

C O R R E C T E D C O P Y (CORRECT OMISSIONS THRUOUT MESSAGE)

EO 11652: GDS

TAGS: PFOR, US, CE

SUBJ: AMBASSADOR'S PROTEST RE FINANCE MINISTER'S REMARKS

REF: COLOMBO 1435

1. SUMMARY: I PROTESTED TO ACTING PRIME MINISTER  
SENANAYEKE MAY 6 THE MAY DAY REMARKS OF TROTSKYITE  
FINANCE MINISTER N.M. PERERA ALLEGING USG WAS USING PL-480  
GENERATED RUPEES TO SUPPORT POLITICAL FORCES OPPOSING  
BANDARANAIKE GOVERNMENT. AFTER EXPLAINING REASONS  
FOR RECENT TRANSFER OF US RUPEES TO COMMERCIAL  
BANK IN ORDER TO EARN COMMERCIAL RATE OF INTEREST,  
I SAID PERERA'S REMARKS WERE PARTICULARLY  
UNFORTUNATE BECAUSE FACTS RE RUPEE TRANSFER  
PREVIOUSLY HAD BEEN DISCUSSED WITH THREE SENIOR GSL  
OFFICIALS. WE WERE PREPARED EXAMINE FINANCE  
SECRETARY COOREY'S CONTENTION THAT JUNE 1966  
EXCHANGE OF LETTERS LIMITED TRANSFER OF OUR  
FUNDS BUT THIS WAS UNRELATED TO CHARGES MADE BY  
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PERERA. I ASKED THAT MY DEMARCHE BE CONVEYED

TO PRIME MINISTER, WHO IS NOW ABROAD, AND THAT  
GSL ISSUE CORRECTIVE STATEMENT. ACTING PRIME  
MINISTER SAID PERERA'S REMARKS IN NO WAY REPRESENTED VIEWS OF GSL AND AGREED CONVEY MY PROTEST  
TO PRIME MINISTER. HE DEMURRED FROM ISSUING  
CORRECTIVE STATEMENT HIMSELF BUT INDICATED RECOMMENDATION RE ISSUANCE OF SUCH STATEMENT, AND ITS  
TIMING, WOULD BE INCLUDED IN HIS COMMUNICATION  
TO PRIME MINISTER IN LONDON. END SUMMARY.

2. I MET WITH ACTING PRIME MINISTER MAITHRIPALA  
SENANAYEKE AT NOON MAY 6 TO PROTEST MINISTER OF  
FINANCE PERERA'S MAY DAY CHARGES OF US INVOLVEMENT IN SRI LANKA'S POLITICAL AFFAIRS (SEE REFTEL).  
ALSO PRESENT WERE ACTING MINISTER DEFENCE AND  
FOREIGN AFFAIRS LAKSHMAN JAYAKODY, W.T. JAYASINGHE,  
SECRETARY OF MDFA, AND PRIME MINISTER'S PRIVATE SECRETARY DHARMASIRI PIERIS. I QUICKLY REVIEWED FINANCE  
MINISTER PERERA'S MAY DAY REMARKS, AS REPORTED IN  
SRI LANKA PRESS, AND SAID THAT IF MINISTER WAS  
ACCURATELY REPORTED, I TOOK SERIOUS EXCEPTION TO  
HIS UNSUBSANTIATED REMARKS WHICH WERE INCONSISTENT  
WITH FRIENDLY RELATIONS PREVAILING BETWEEN UNITED  
STATES AND SRI LANKA.

3. I THEN RECOUNTED FACTS OF SITUATION, AS I  
UNDERSTOOD THEM, NOTING INTER ALIA THAT: A)  
USG-OWNED RUPEES DERIVED FROM LOAN REPAYMENTS BY  
GSL ARE DEPOSITED IN FIRST INSTANCE IN USG ACCOUNT  
IN CENTRAL BANK; B) IN ACCORDANCE WITH DIRECTIVES  
OF US TREASURY, SOME OF THESE FUNDS IN PAST HAD BEEN PERIODICALLY  
TRANSFERRED TO TIME DEPOSITS IN COMMERCIAL BANK TO  
DRAW COMMERCIAL INTEREST; C) THESE TRANSFERS HAD  
NOT TAKEN PLACE FOR PAST YEAR OR TWO BECAUSE SUPPLY  
OF US-OWNED RUPEES WAS ONLY ENOUGH TO COVER  
GENERAL OPERATING EXPENSES OF US EMBASSY; D)  
WITH COMPLETION OF MAINTENANCE OF VALUE  
NEGOTIATIONS LAST SUMMER, ADDITIONAL RUPEES  
HAD ACCRUED IN US ACCOUNT, WHICH, ON INSTRUCTIONS  
FROM WASHINGTON, EMBASSY HAD TRANSFERRED TO  
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GRINDLAYS BANK TO EARN COMMERCIAL INTEREST; AND  
E) IN APRIL, EMBASSY WITHDREW  
RS 1,000,000 FOR NORMAL OPERATING EXPENSES AND  
RS 1,000,000 FOR DEPOSIT IN GRINDLAYS BANK.  
CONTRARY TO FINANCE MINISTER'S ALLEGATIONS, GSL  
DID NOT REFUSE TO ALLOW EMBASSY TO WITHDRAW  
ADDITIONAL AMOUNT IN APRIL, AS EMBASSY HAD INITIALLY  
REQUESTED, BUT RATHER INFORMED EMBASSY IT DID NOT

HAVE ENOUGH CASH ON HAND TO COVER ENTIRE AMOUNT REQUESTED FOR TRANSFER.

4. I WENT ON TO RECALL THAT I HAD DISCUSSED RUPEE WITHDRAWAL QUESTION APRIL 21 WITH ACTING FINANCE MINISTER BERNARD SOYSA. DCM HAD ALSO DISCUSSED ISSUE SAME DAY WITH FINANCE SECRETARY COOREY, AND LATER, AS CHARGE, WITH CENTRAL BANK GOVERNOR TENNEKON ON APRIL 23. IN VIEW THESE EARLIER DISCUSSIONS OF THE TRUE SITUATION WITH SENIOR OFFICIALS OF GSL, IT WAS PARTICULARLY UNFORTUNATE THAT N.M. PERERA HAD MADE PUBLIC ALLEGATIONS ABOUT US INVOLVEMENT IN SRI LANKA'S INTERNAL AFFAIRS WITH FURTHER CONSULTATIONS WITH AMERICAN EMBASSY.

5. WE HAD TAKEN NOTE OF FINANCE SECRETARY COOREY'S COMMENT ON APRIL 21 THAT GSL INTERPRETED JUNE 1966 EXCHANGE OF LETTERS AS MEANING ALL U.S. - OWNED RUPEES FROM LOAN REPAYMENTS WOULD BE MAINTAINED IN USG ACCOUNT IN CENTRAL BANK. HOWEVER, THIS INTERPRETATION APPEARED TO DIFFER SIGNIFICANTLY FROM VIEW OF U.S. TREASURY. MATTER WOULD BE THOROUGHLY EXPLORED, BUT, IN ANY EVENT, IT WAS ENTIRELY DIVORCED FROM FINANCE MINISTER'S CHARGES OF AMERICAN INTERFERENCE IN DOMESTIC POLITICS.

6. I ALSO RECALLED THAT I HAD EMPHASIZED ON SEVERAL OCCASIONS TO PRIME MINISTER BANDARANAIKE, AND WISHED TO REITERATE, THAT UNITED STATES CONDUCTED GOVERNMENT-TO-GOVERNMENT RELATIONS WITH GSL. USG DID NOT SUPPORT ANY PARTICULAR POLITICAL PARTY OR GROUP NOR DID IT INVOLVE ITSELF IN INTERNAL AFFAIRS OF SRI LANKA.

7. IN CONCLUSION, I ASKED THAT MY DEMARCHE BE CONFIDENTIAL

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CONVEYED TO PRIME MINISTER BANDARANAIKE IN VIEW OF THE SERIOUS CHARGES LEVELED AGAINST FRIENDLY GOVERNMENT BY MINISTER OF FINANCE. BECAUSE OF PROMINENCE GIVEN PERERA'S ALLEGATIONS IN SRI LANKA PRESS, I ALSO ASKED GSL TO PROMPTLY ISSUE STATEMENT ASSERTING THAT THERE WAS NO EVIDENCE OF IMPROPER MOTIVES IN TRANSFER OF FUNDS, NOR EVIDENCE OF ANY INTENTION USE THESE FUNDS IMPROPERLY IN CONTEXT OF DOMESTIC POLITICAL AFFAIRS OF SRI LANKA. IT WAS HOPED GSL STATEMENT WOULD BE GIVEN SAME PRESS PLACEMENT IN GOVERNMENT-CONTROLLED DAILY NEWS AS WAS AFFORDED ORIGINAL ALLEGATIONS BY MINISTER OF FINANCE. I LEFT WITH ACTING PRIME MINISTER AIDE-MEMOIRE, COVERING FOREGOING POINTS.

8. AFTER HEARING MY PRESENTATION, ACTING PRIME

MINISTER SAID THAT HE WISHED TO MAKE CLEAR THAT FINANCE MINISTER'S REMARKS IN NO WAY REPRESENTED VIEWS OF GSL WHICH, AS I HAD NOTED, MAINTAINED VERY GOOD RELATIONS WITH UNITED STATES. IT WAS MOST UNFORTUNATE THESE REMARKS HAD BEEN MADE. HE SAID HE WOULD CONVEY MY PROTEST TO PRIME MINISTER BANDARANAIKE AND INDICATED THIS WOULD BE DONE BY SENDING AIDE-MEMOIRE TO HER VIA TELEGRAM. SINCE PRIME MINISTER WAS NOW IN GUYANA, WHICH WAS DIFFICULT REACH IN TERMS OF GSL'S COMMUNICATIONS CAPACITIES, BEST ALTERNATIVE WOULD BE TO TRANSMIT MY VIEWS TO SRI LANKA HIGH COMMISSION LONDON SO THAT THEY WOULD BE THERE UPON PRIME MINISTERS ARRIVAL.

9. SENANAYEKE DEMURRED FROM ISSUING CORRECTIVE GOVERNMENT STATEMENT, HIMSELF SAYING THAT HE WAS IN ACTING CAPACITY. IF SUCH STATEMENT WERE ISSUED IT SHOULD MORE APPROPRIATELY COME FROM PRIME MINISTER. THEREFORE, IT MIGHT BE BETTER TO DEFER DECISION ON STATEMENT UNTIL PRIME MINISTER RETURNED TO SRI LANKA. I NOTED THAT TIMING OF STATEMENT WAS IMPORTANT BECAUSE ISSUE STILL REMAINED ALIVE AS INDICATED BY SARVODAYA LEADER'S COMMENTS IN MORNING PRESS. IT WAS ALSO POSSIBLE ISSUE WOULD BE RAISED IN PARLIAMENT OR IN OTHER FORA AND CONSEQUENTLY I HOPED GSL WOULD FIND SOME MEANS OF CORRECTING RECORD SOON. WITHOUT COMMITTING HIMSELF SPECIFICALLY, CONFIDENTIAL

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ACTING PRIME MINISTER INDICATED THAT RECOMMENDATION RE ISSUANCE OF GSL STATEMENT, AS WELL AS TIMING, WOULD BE INCLUDED AS PART OF HIS COMMUNICATION TO PRIME MINISTER IN LONDON.

10. COMMENT: IF GSL DOES NOT ISSUE CORRECTIVE STATEMENT SOON, OR GIVE ME EXPLICIT ASSURANCES IT WILL BE ISSUED, I WILL ASK DEPARTMENT TO SEND ME FORMAL INSTRUCTIONS REQUESTING STATEMENT FROM GSL.

VAN HOLLEN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
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